

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

# **Internationalization Strategy of *Labirinto* *Shoes* to Tokyo, Japan**

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A project carried out on the SME Competitiveness: Internationalization Strategy Field Lab, under the supervision of

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## Index

<b>Executive Summary</b> .....	4
<b>Firm Description</b> .....	4
Business Mission and Strategic Objectives for Labirinto .....	7
VRIO Framework - Competitive advantage in the domestic market .....	7
Industry Mapping.....	10
<b>Internationalization process to Tokyo, Japan</b> .....	12
PESTEL analysis .....	12
Porter's Five Forces Analysis .....	16
SWOT Analysis .....	19
TOWS Analysis .....	20
<b>Mode of Entry</b> .....	20
Possible Strategies and Import Logistics .....	20
<b>Implementation plan</b> .....	26
MEMO .....	27
Minute and Men.....	28
Pricing Strategy.....	28
Financial Projections.....	29
Risk Analysis .....	30
<b>Conclusion</b> .....	32
<b>Bibliography</b> .....	34

## **Executive Summary**

*Labirinto Shoes* is the new own brand of leather shoes exploited by *Filipe Shoes*, a company incorporated in the Portuguese footwear cluster. *Filipe Shoes* exports 95% of its business worldwide, as a manufacture for private labels. The Portuguese footwear industry is expanding and has a high quality stamp all over the world, being known as the “*sexiest industry*” of footwear. *Labirinto Shoes* objective is to focus on internationalization, following enterprise’s mission and goals.

Tokyo is a challenging and tempting opportunity due to its dynamic and social patterns. Japan is the 2<sup>nd</sup> worldwide footwear importer and the 5<sup>th</sup> footwear consumer, with a high purchasing power per capita. It appears also as a step to conquer other Japanese cities and even other Asian markets.

This Internationalization Project for Tokyo has the objective to develop an entry plan for *Labirinto Shoes*, and maximize the efficiency of the international strategy.

**Key words:** *Labirinto Shoes*; *Filipe Shoes*; Footwear; Internationalization Project; Tokyo; Japan

## **Firm Description**

Silva e Sousa & Irmãos, the original name of *Filipe Shoes*, is a small enterprise within the Portuguese shoe cluster. In 1949, Silva e Sousa & Irmãos initiated its business with the production of high quality men's shoes, 100 % handmade of leather, commercialized in the Oporto and Lisbon areas. In 1979, within the second generation, *Filipe Shoes* was founded and due to market trends, the production of women shoes started and lead to the company first’s exports and its growth. This switch between generations has followed a very natural path where every transition implied an overlap of generations, where the son was prepared to assume control by experience and study every department and operation of the enterprise for a 6 years period in order to gain hands on experience. According to Ikujiro Nonaka (1991), there is a high value in the “tacit” knowledge standing for the value of the subjective knowledge within an enterprise that is difficult to replicate and share. Between generations *Filipe Shoes*’ managers had always followed Nonaka’s tactic for vertical and horizontal intersection of the information’ flow within the company, lining up the objectives and strategies,

serving as a “bridge between the visionary ideals of the top”<sup>1</sup> and the manufacture workers. Although the generations had been changing, there was not a dramatic rupture in the long run strategies adopted; the policy has always been answering the market trends.

**FIGURE I – History Milestones of *Filipe Shoes***

	1949	...	1979	...	2007	...	2015
<b>Silva e Sousa &amp; Irmãos - 1<sup>st</sup> Generation</b>	◆						
Production of high quality men's shoes	◆						
<b>Second Generation</b>			◆				
Filipe Shoes enter in the market			◆				
Production of women shoes				◆			
Starting attending International Fairs				◆			
First Exports					◆		
Firms' Growth					◆		
<b>Third Generation</b>					◆		
Labirinto Shoes is released in the market							◆

*Source: Primary Source*

Currently, *Filipe Shoes* is managed by the third generation of the family, specialized in the development and production of leather footwear for private labels, having more than 300 clients, present in 25 countries and 4 continents (*see Exhibit 1- Filipe Shoes International Presence*). 95% of *Filipe Shoes* sales volume is all around the world and only 5% in Portugal. 85% of the products are designated for women and 15% for men. The company has 100 workers and its human organizational resources can be divided in two sections: back office and manufacturing processes. (*see Exhibit 2 – Filipe Shoes Human Resources Organizational Chart*). *Filipe Shoes* has the capacity to produce 2.000 pairs<sup>2</sup> of shoes daily and its headquartered is located in Zona Industrial de Sanguêdo, close to *Santa Maria da Feira* and inserted into a region specialized in the development and manufacture of footwear (*see Exhibit 5 – Portuguese Footwear Cluster*). In theirs facilities they are equipped with the most modern and efficient technology and having an internal modeling team. The firm capital is currently divided

<sup>1</sup> (Nonaka, 1991)

<sup>2</sup> The factory has a daily average production of 1.800 pair of shoes. FilipeShoes' firm is not using the maximum capacity, having a 90% capacity utilization.

by three shareholders (see *Exhibit 3 – Filipe Shoes’ Shareholders*). In 2013 *Filipe Shoes* had a sales value of 7.736.900 M €. (see *Exhibit 4 – Filipe Shoes’ Sales Growth*).

*Filipe Shoes* has a large variety of shoes models, being the moccasins<sup>3</sup> their best sellers. (see *Exhibit 6 – Filipe Shoes’ Moccasins*). Although *Filipe Shoes* has the power to design the shoes for their clients, they do not retain full control over the collections and they always listen to the clients’ preferences, having a limited autonomy in their decisions. *Filipe Shoes’* firm has two kinds of contracts with their clients: in the first contract type, they design the entire collection and decide all the specificities of the models, resulting in no exclusivity contract and having the possibility to sell the same model to different clients; the second contract exists when the clients are involved in the models’ design, being implicit an exclusivity contract.

The enterprise is now registering their own brand, named **“Labirinto Shoes”**, whose market strategy and product designs will be fully decided by the management team. *Labirinto Shoes’* brand identity<sup>4</sup> and brand positioning<sup>5</sup> are currently being defined and developed together by the managers and a brand designer. According to Kapferer (2012), the brand’s identity expresses its tangible and intangible characteristics, referring to everything that makes the brand unique and that expresses its values. On the other side, the objective of positioning is “to identify, and take possession of, a strong purchasing rationale that gives us a real or perceived advantage”<sup>6</sup>. It implies a long run position in the market and developing strategies to preserve it. Positioning a brand has to follow some steps in order to be well succeed: analysis of the competitive environment as well of the consumer insight in which the brand relies; define a specific and objective target; define the main benefits, values, personality, and essence carry by the brand and at last defend and sustain the reasons to believe. *Labirinto Shoes* potential positioning can be defined as a comfort quality shoe, mainly moccasins, which follow up with fashion trends in the market. It is heading for casual and active stylish women who enjoy comfort and use *Labirinto Shoes* in a daily

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<sup>3</sup> This model of footwear was firstly created by a north-American Indian trib. It is traditional made in leather and has no high heels. It has become a commercial hit since 1940, and it is design for a formal, sophisticated look being a highly appraised for working environments.

<sup>4</sup> “Brand Identity is what brand managers would like the brand to be, what the brand stands for and what makes it unique”, Catherine da Silveira

<sup>5</sup> “Brand positioning is what brand managers would like consumers to know about the brand”, Catherine da Silveira

<sup>6</sup> (Kapferer, 2012)

basis belonging to the medium end income class. (see Exhibit Exhibit 7 – *Labirinto Shoes Potential Brand Identity Prism*).

This new project is supported by QREN<sup>7</sup> that finances internationalization plans, providing expenses assistance on the brand communication and development, web design and travel expenses to international fairs.

Further in this thesis, the strategic objectives of *Labirinto* will be described.

## **Business Mission and Strategic Objectives for Labirinto**

*Filipe Shoes* firm **mission** is to produce quality leather footwear, comfortable shoes<sup>8</sup>, following the fashion trends in terms of colors and models and have a competitive price<sup>9</sup>, respecting always the specificity of each of its partners and customers, following the original principles.

*Filipe Shoes*' firm **vision** is to increase sales volume of their newborn own brand *Labirinto Shoes* to 30% keeping the other 70% based on private labels, in 20 years. Increase *Filipe Shoes* brand's visibility in the market, gain trust among their clients, increase loyalty to the brand and consequently gain autonomy in their decisions.

As this work project is based on *Filipe Shoes*' newborn brand, *Labirinto Shoes*' **strategic objective** is internationalize. For that, the company is registering the brand and is working on the communication channels. *Labirinto* will be formally presented to the market with the 1<sup>st</sup> winter 2015 collection in January 2015, in Italy. The sales strategy will be based in presenting *Labirinto Shoes* in other shoe fairs, associating it with *Filipe Shoes* as a manufacture for private labels for credibility.<sup>10</sup>

## **VRIO Framework - Competitive advantage in the domestic market**

"The resources and capabilities of the firm are the primary source of a firm's profitability" (Porter, 2008). Following the resource- based theory the key for a sustainable competitive advantage is to "exploit strategies which will exploit to

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<sup>7</sup> Quadro de Referência Estratégica Nacional, Web Site: <http://www.qren.pt/np4/home>

<sup>8</sup> Prove by the fact that barely any of their models have high heels. The slogan of *Filipe Shoes*, "Enjoy the Walk", also represents the feeling of comfortable shoes to use in a daily basis.

<sup>9</sup> Average Price to the final consumer: Boots: 149.90 €; Female Shoes: 69.90 €; Source: Rui Sousa, *Filipe Shoes*' Manager

<sup>10</sup> It is not the first time that this firm has an own brand. *Filipe Shoes* was supposed to be an own brand but due to the fact that fairs are targeted to private labels the brand was always viewed as such. However, now with the presence of two brands in the market will enable a distinction of both (one directed at private labels and the other as an own brand).

maximum effect each firm's unique characteristics" (Grand, 1991). The competences of a firm can be divided in three types: core competences, specialized assets and architecture of relations<sup>11</sup> (see *Exhibit 8 – Filipe Shoes/ Labirinto Shoes Organizational Resources Platform and Dispersion Chart*).

In order to incorporate the resource-based theory, the VRINO framework was created to examine the internal environment of the firm (Barney and Hesterly, 2006). (see *Exhibit 9 – Filipe Shoes/ Labirinto Shoes VRINO framework*).

Being part of the Portuguese footwear **cluster network**, creating linkages and alliances with other enterprises and partners are one of the most sustainable sources of success for *Filipe Shoes*. It creates the possibility of share knowledge, being up-to-date and having access to more accurate information. The **on-going research of raw materials** (namely leathers) is rare between companies due to the fact that the suppliers typically search for their clients. But having a continuous process of deep research accumulates a knowledge that is non-substitutable and a competitive advantage for *Filipe Shoes*. The **know-how** accumulated between generations, "tacit" knowledge, is hard to replicate and the management background of the current managers give this generation a more effective view of the market and the successful strategies to approach. The **in-house design** creates value for *Filipe Shoes* due to the fact that they can be more independent in their decisions and keep the flexibility to their clients. The **quality management** control, 3% margin of error, keeps an accurate manufacture work.

## Value Chain Analysis

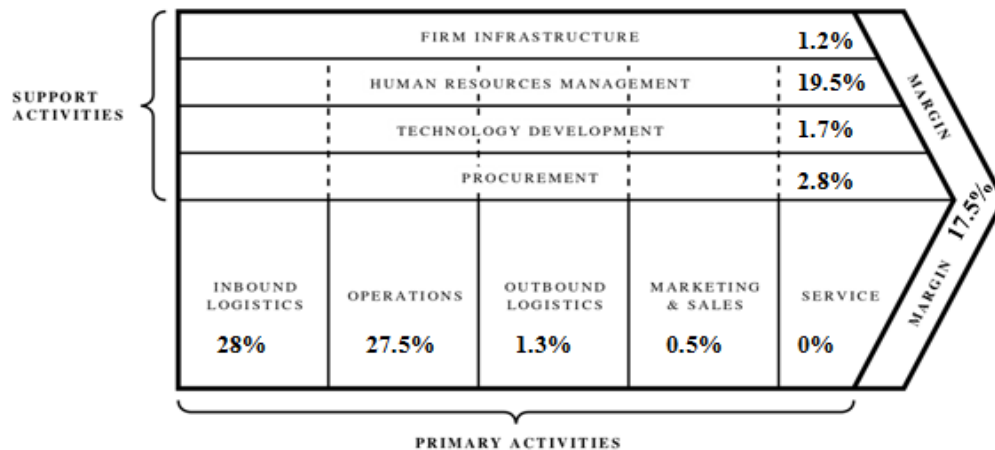
"The value chain desegregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation." (Porter, 2008) From this model, Michael Porter concludes that by dividing the business system in a sequence of value-generating activities we can understand how the firm creates value and how it can perform cheaply or better than its competitors. The **profit margin** of *Filipe Shoes* is estimated to be **17.5%**

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<sup>11</sup> A core-competence is in the case that the firm's competence becomes essential to the success of the firm, sustaining a competitive differentiation. Specialized assets are tangible or intangible assets that by their idiosyncratic characteristics are not available to the firms' competitors. Architecture of relations are internal or external network of relations that provide knowledge creation for the firm.



**FIGURE II – *Filipe Shoes*’ Value Chain**



*Source: Rui Sousa, Filipe Shoes’ Manager*

Starting with the primary activities, the **inbound logistics (28%)** contains the action of supplying the raw materials and all the inputs necessary for the shoe manufacture. In this phase there is a quality control on leather materials, admitting a margin of error of 3%<sup>12</sup>. All the raw materials are stored in the raw materials warehouse. The **operations (27.5%)** process comprises four sections: cutting (representing 15% of operations), sewing (40% of operations in which 90% of this activity is outsourced), assembly (counting for 25%) and finally the finishing touches (20%) (see Exhibit 10 - Assembling Process for a Shoe Manufacture). In each one of these sections there is a person responsible for the operation and for the quality control of the process. Once the shoes are ready to be shipped, the **outbound logistics (1.3%)** include the management of the warehouse with the finished shoes and the distribution process, done through *Filipe Shoes*’ clients. Lastly are the **marketing and sales (0.5%)** that are in charge of an outsourced firm with a brand creator<sup>13</sup> who develops all the brand promotion (logo, slogan, and website). The communication of the products is done by having one of the managers visiting multi-brand stores, fairs and presenting the company profile.

Within the support activities there is the **infrastructure (1.2%)** that is composed by three warehouses (one of raw materials, the manufacturing factory and one for the finished goods), all connected, facilitating the communication and the on-going process.

<sup>12</sup>: Rui Sousa, *Filipe Shoes*’ Manager

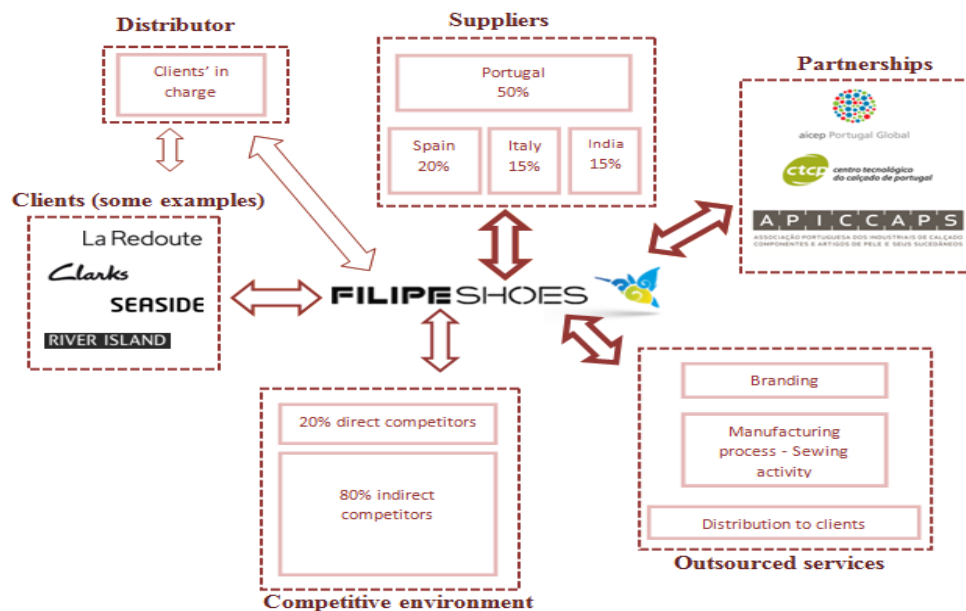
<sup>13</sup> Web site: [www.brandcreativestore.pt](http://www.brandcreativestore.pt)

Being part of the **human resources management (19.5%)** are around 100 employers, excluding the outsourced ones, which receive formation in order to deliver a quality work<sup>14</sup>. The formation level of *Filipe Shoes*' managers is also relevant, taking into consideration that they have a management background. In the **technology (1.7%)**, apart from all the machinery for the shoes' manufacture, *Filipe Shoes*' warehouse has computers' systems associated to the operation activities to control the manufacturing process and all machines. At last, the **procurement (2.8%)** includes all the dislocations to international fairs, done by the managers, in order to show their products and gain new clients.

## Industry Mapping

The industry map represents the network of the major players in the industry and the relationships or linkages between these players qualifying the respective linkages. With this, the Industry Map is an excellent tool to understand how the Portuguese footwear cluster mechanism works and comprehend the relationship between *Filipe Shoes*' firm and the main players.

**FIGURE III – Industry Mapping**



Source: Primary source

<sup>14</sup> CTCP organizes professional workshops to qualify manufacture workers.

Starting with the **Suppliers**, they are divided in terms of materials. The leather suppliers are mainly located in Portugal (50%), Spain (20%), Italy (15%) and India (15%)<sup>15</sup>. The leather arrives to the firm already clean and prepared to be used. Due to the price volatility of this input, *Filipe Shoes* may switch its suppliers more frequently in order to maintain a good price quality ratio and diminish the risk of delays or supply failures. The shoe soles, glue and thread suppliers are Portuguese firms (around 15 firms). All suppliers visit the firm directly through agents and chosen mainly according to their quality and price.

The **Clients**, as referred before, are spread worldwide in 4 continents in more than 25 countries. Some examples of *Filipe Shoes*' clients are in the UK Clarks or River Island, in France and Germany La Redoute and Seaside in Portugal. They use a direct approach with these clients that consist in e-mails, phone calls, exhibitions at fairs and direct contact by showing the company profile.

The **Distributors** are represented by all the private labels, *Filipe Shoes*' clients, as these are the ones that enable the shoes to reach the final consumers, working in a B2B model.

The **Competitors** can be classified in direct and indirect. The **direct competitors** can be classified as those firms who sell shoes to the same market segment using the same materials as *Filipe Shoes*. In the Portuguese market, *Filipe Shoes*' manager considers that only 20% of the enterprises, within the cluster, are their direct competitors. Those companies that sell footwear, but not specifically targeted to median-class women who use comfortable quality shoes, are seen as **indirect competitors** (example: high-end shoe brands inspired by designers).

Besides these players, *Filipe Shoes* maintain a close relationship with some important **Institutional Players**: APPICAPS<sup>16</sup>, CTCP<sup>17</sup> and AICEP<sup>18</sup>. APICCAPS is the Portuguese Association of the footwear manufacturers, components, leathers goods and substitutes. It helps *Filipe Shoes* organizing its participation in international fairs, where they can show their products and make contacts with new clients. APPICAPS also offers industry studies, statistics and news, keeping its journal up to date. CTCP stands for the Portuguese Technology Center of Footwear. The technical support from

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<sup>15</sup> Rui Sousa, *Filipe Shoes*' Manager

<sup>16</sup> Web site: <http://www.apiccaps.pt/>

<sup>17</sup> Web site: <http://www.ctcp.pt/>

<sup>18</sup> Web site: <http://www.portugalglobal.pt/>

all the machinery present at *Filipe Shoes* facilities is done by CTCP. Quality certificates and patent registries are other CTCP's roles. AICEP is the Agency for the External Investment and Commerce of Portugal. It helps *Filipe Shoes* with industry studies, regulations and protocols from potential countries they want to enter in.

## Internationalization process to Tokyo, Japan

### PESTEL analysis

Currently, companies are looking for entering in developed markets, with a huge potential, like Asia and Middle East. “*If you can make it in Japan, you can make it anywhere*”<sup>19</sup>, given that this is one of the most challenging and competitive markets. Nevertheless, Japan economy is extremely open to new brands. One of the reasons behind Japan's, mainly Tokyo, as a destiny for *Labirinto Shoes*, is creating brand awareness, develop a stable brand image as a classic, fashion and comfort footwear brand for middle class women and create the opportunity to exploit synergies and captivate the attention from the all Asian market.<sup>20</sup>

Japan has 127 million people, being one of the most populated countries in the world. It has 92% of urban population with an annual growth rate of 0.2% and the fifth highest life expectancy in the world, 82.3 years. Japan's economic growth was brought to a brutal decline in 2011 after the Great East Japan earthquake and tsunami. In the current days, the **economic** and **political** changes are stabilizing. In terms of GDP per capita it occupies the 36<sup>th</sup> position worldwide, and the real GDP is forecast to grow by 1.2% in 2014<sup>21</sup>. According to Euromonitor, the consumer expenditure per capita achieved values of 15.704 € thousand (¥ 2,233) in 2013 and is forecast to rise by 0.1% in 2014. Unemployment was 4.0% in 2013 and it will fall to 3.7% in 2014. In 2014, inflation is expected to reach 2.5%.

Considering the global Portuguese exports to Japan, footwear was the 4<sup>th</sup> larger exported group in 2013, following agricultural and food products, machinery and chemical products. 85.3% of the Japanese footwear market is made up of imports (including overseas production of Japanese manufacturers) and it accounts for 26.1% of the Asia-Pacific footwear market value. In 2011, Japan was ranked at 2<sup>nd</sup> as World

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<sup>19</sup>Eng. José Fernandes, AICEP Portugal Global in Tokyo

<sup>20</sup>Rui Sousa, *Filipe Shoes*' Manager

<sup>21</sup> Measured in a purchasing power parity basis to adjust for different prices.

Footwear importer, with 6% world share, 619 million pairs imported per year and is the 5<sup>th</sup> nation in the world that most consumes footwear, 690 million pairs per year. (see *Exhibit 11 – Sales of Japanese Footwear, 2008-2013, Volume and Quantity*)

**FIGURE IV - Top 10 Footwear Importers (Quantity)**

Country		Pairs (millions)	World Share
1 USA		2 302	22.4%
2 Japan		619	6.0%
3 Germany		593	5.8%
4 France		480	4.7%
5 United Kingdom		455	4.4%
6 Hong Kong		425	4.1%
7 Italy		358	3.5%
8 Spain		354	3.4%
9 Russian Fed.		256	2.5%
10 Netherlands		245	2.4%

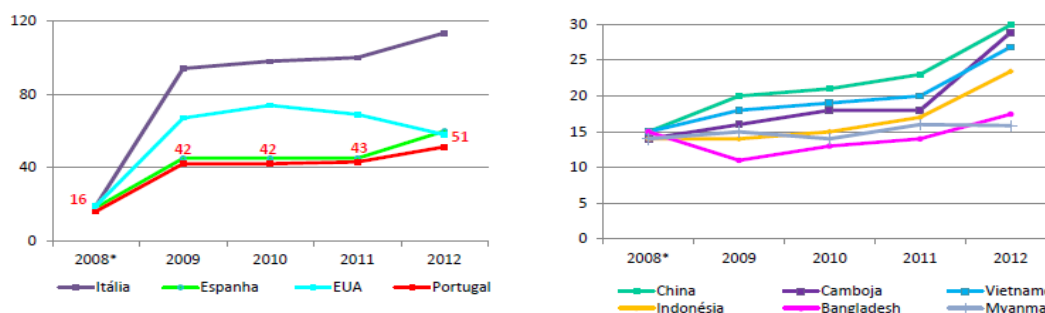
*Source: 2012- Year Book, APPICAPS*

Between 2013 and 2018, the Japanese footwear sales is forecast to grow 2,9%. In terms of women leather footwear, the Japanese sales will growth both in sales and in volume, achieving the highest growth within the other categories. (see *Exhibit 12 – Forecast Sales of Japanese Footwear by Category, 2013-2018, Volume, Quantity and % Value Growth*)

Portugal is the 10<sup>th</sup> biggest Japanese supplier in terms of **leather footwear**. Between 2008 and 2012 the Japanese leather footwear imports raise at a higher rate than the rest of the world, 11.1%. According to ITC, the Japanese leather footwear imports coming from Portugal grew up from €10.5 million to €21.9 million, between 2008 and 2012. The average price of Portuguese leather shoes imported by Japan was 51 € per pair in 2012.<sup>22</sup> This gives *Labirinto Shoes* competitive advantage having the capacity to be price competitive and enter in the Japanese market at a lower price, reaching the final consumer as a mid-range good.

<sup>22</sup> The global average price of an imported leather shoe by the Japanese was 33 € per pair. Portugal comes in 4<sup>th</sup> place with the higher average price following Italy 113 € per pair, Spain 60 € per pair and the USA 58 € per pair.

**FIGURE V – Average prices of imported leather footwear to Japan**



*Source: AICEP Portugal Global, “Japão- Síntese Sectorial do Calçado de Couro”*

To analyze the macro environmental factors that will have impact on the entry of *Labirinto Shoes* to Japan a **PESTEL** will be used in order to pick the most efficient entry strategy.

Concluding the **political** and **economic** factors that were presented during the scanning analysis, Japan has a strong economy, high purchase power and despite the downturns suffered due to the 2011 natural disaster, the country is now stabilizing and has great prospects to the future.

In the **social** facts, Japanese median age is 46 years, and it is one of the most elderly countries in the world. In an effort to incentive population growth, the government recently introduced a child benefit fee which provides parents with 91,4 € (¥ 13.000) per month. The male population accounts for 48% and the female population for 52%. Japan’s savings ratio amounted to 7.4% of disposable income in 2013 and it is forecast to go down to 6.8%. (see *Exhibit 13 - Japan Annual Disposable Income Growth, 1990-2014*)

The Japanese population is divided by age in four segments. (see *Exhibit 14 - Japanese Population Age Segments and its Growth*). The middle youth and the mid-lifers are highly active consumers. (see *Exhibit 15 - Japan vs US: Population by Income (PPP) 2013*). *Labirinto Shoes* will be targeting this segment. Consumers are now used to searching for better deals: “affordable luxury is the new buzzword in Japan”<sup>23</sup>. They have become more price-sensitive and Japanese consumers are now beginning to embrace Western fashion habits: flat shoes, pastel hues, crop tops, short boots and bold prints are the fashion trends. Also, the strengthening of health conscious trends and how

<sup>23</sup> Euromonitor International.2013. *Japanese Consumers in 2020: A Look into the Future*

heels can affect the body posture leads to stable sales of comfort shoes. The increasing number of women entering the workforce in Japan has been a key driver of women's wear and consequently in women's footwear.<sup>24</sup> (see *Exhibit 16 - Japanese Women's Wear Brands Target Working Women*) From 1945 on, women entered the labor force in greater numbers: women increased their labor force participation rate from 43% in 1970 to 63% in 2013.<sup>25</sup> RBW Securities economist forecast that the percentage of working women will rise to 73.5% by 2030.<sup>26</sup> Until 2018 the sales value of women's footwear is forecast to rise from €4.2 billion to €4.4 billion. These forecasts support the positioning that *Labirinto Shoes* wants to establish as a comfort quality shoe for active working women that use *Labirinto Shoes* in a daily basis. Associations with Portugal will also be positive for *Labirinto Shoes*. Part of the Japanese knowledge is the fact that the Portuguese culture was a major influence in their first big Westernization movement, and this aspect is a substantial competitive advantage when introducing any Portuguese product. Portugal is labeled as a modern and aggressive culture to the Japanese. (See *Exhibit 17 - Portugal and Japan Relation*) The Japanese business environment is demanding<sup>27</sup>, but once a company is successful in Japan it is mature enough for other markets.

In terms of **environmental** concerns, the Japanese are following the worldwide trends. Ergonomic, breathable and cushioned shoes for work and with an everyday leisure use are the recent popular items in the highly consumer driven population. Japanese society is now more conscious about the environment and sustainability and has been the world's leading importer of renewable natural resources and one of the

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<sup>24</sup> Leading suits companies in Japan, like Aoyama and Aoki, have been increasing their collections of women's suits. In 2012 they had 12% sales increase in this department. The growth of women's suits is also driven by the popularity of suits for new graduates who are looking for a job.

<sup>25</sup> Although the rise of female participation can provide an important boost to Japan's growth, women face two important issues: low percentage of women that develop a career-track achieving leadership positions and the childbirth that lead women to drop the workforce. To increase women's attachment to work Japan government is implementing policies to provide better support for working mothers: a more flexible work environment combined with better child care facilities and longer leave policies will help reduce the number of women who exit the workforce after childbirth.

<sup>26</sup> Forbes. (May, 2010) "Japan's Population Problem". Retrieved from: <http://www.forbes.com/2010/06/14/japan-population-aging-business-oxford-analytica.html>

<sup>27</sup> The decision process in the Japanese market is slow due to the rigorous and careful planning and the objective to always have a safe investment and strategic plan. Japanese develop strategies in the long run and always try to reduce their financial risks to zero. The personal relations are extremely important and even the work engagements are taken seriously. The communications should be done in a quick, clear and objective way. The Japanese consumer is demanding, following the traditional saying "*okyahu sama kami sam*", sophisticated, informed and cosmopolitan. Although only 2% of the population speaks English, there is always the possibility for a translator, and Japan is always open to new brands, trends and international products.

largest consumers of fossil fuels. Since 1993, the government renewed its environment legal system and created an organized Basic Environment Law.<sup>28</sup>

Regarding **technology** there haven't been many advances in the footwear industry, once Japan is mainly an importer. However, since Portugal has the leadership in footwear's technology<sup>29</sup>, it becomes a competitive advantage for *Labirinto Shoes* since Japanese consumers are extremely technology aware and give a lot of credit to innovation, valorizing everything that is new.

**Legally**, most of the products can be imported freely, but when it comes to leather footwear there are some aspects to be taken into account. Only 12 million pairs per year of imported leather shoes are allowed to enter in the Japanese market with a duty rate of 24%<sup>30</sup>. When this limit is reached, Japan imposes a €41.35 tariff on each pair of shoes. Kevin Burke, AAFA President and CEO states that this quota has the objective to bars U.S. footwear manufactures from the Japanese market since it is one of the largest markets in the world.

## Porter's Five Forces Analysis

The **Porter's Five Forces** analysis of the Japanese footwear market is present in this section pointing out the drivers, factors and the respective force for the Japanese Footwear market. The assumption was made that the buyers are the final individual consumers, the suppliers the importers that buy directly *Labirinto Shoes* and can be themselves manufactures. (see Exhibit 18 - Porter's Five Forces Graphics for the Japanese Footwear Market)

Starting with the **buyers' power**, footwear is a necessary good for all the population so the sales' volume in the market is high. On the other hand there is a low-cost and a high tendency to switch from one product to another and from one brand to another. There is a wide variety of footwear brands available that gives in a high independence to the buyers in the footwear market. The level of price sensitivity gives the consumer power, being this tendency in favor of *Labirinto Shoes* that has the capacity to be price competitive. Concluding the buyers' power is **high**.

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<sup>28</sup> This portfolio of laws included: limits on industrial emissions, restriction of products, control over wastes, improvement of energy conservation, promotion of recycling, restriction of land utilization, arrangement of environmental pollution control programs, between others.

<sup>29</sup> APPICAPS.2013. *Footure 2020- Plano Estratégico Cluster do Calçado*.Oporto:CEGEA.

<sup>30</sup> European Comission. Tariffs. Retrieved on November 2014 from <http://madb.europa.eu/madb/atDutyDetailPubli.htm>



Within the **suppliers' power** it is difficult to compete with the extremely low prices from low-cost manufacturing locations, South-East Asia as an example, so *Labirinto Shoes* has to find its positioning in the market offering a differentiated, quality and Portuguese stamped product. This stamp is a reference for leather quality and fashion, so *Labirinto Shoes* should not be produced in other manufactory that could offer lower costs. Despite the fact that Japan is extremely open to new brands, there are strong brands with a high market share. But the oligopoly threat is low. Concluding suppliers have a **medium** level of power.

Considering the **power of new entrants**, the initial costs to enter in the market are relatively low what gives power to new entrants. On the other hand, given the total players in the market, the high level of competitiveness, the low level of brand awareness and the high custom fee (24%) for leather shoes can be seen as entry barriers. Nevertheless in favor for *Labirinto Shoes* is the prospect growth for the leather women footwear segment, from 2013 until 2018. The growth of online sales channels can be seen both as an opportunity and a threat. According to eMarketer, Japan is ranked the 2<sup>nd</sup> largest B2C e-Commerce market in the world having over 100 million internet users. In 2012, the online retail represented 3,9% of total retail.<sup>31</sup> For *Labirinto Shoes* this trend is not attractive in the short run due to the lack of experience in this area. This distribution channel is seen as a threat, as new entrants can exploit e-commerce opportunities. Overall the power of new entrants is **moderate/high**.

Footwear is a necessary good, so the **threat of substitutes is low**. Within the market the final consumers can find some alternatives between segments having the possibility to substitute a leather comfortable shoe for a synthetic material shoe, a classy high heels elegant shoe or for athletic footwear. Although the cost of intra-market switching is low, each segment offers different benefits.

As pointed above, given the low fixed cost to enter in the market there is a high number of players in the market, but it is dominated by large retail groups (ex: ABC Mart) who strongly compete between them. It is easy to a new and small firm enter the market, being the best alternative, in the long run, have a good relationship with the Japanese retailers and distributors to create loyalty loops. The degree of diversity

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<sup>31</sup> (JLL. 2013. E-commerce boom triggers transformation in retail logistics)

between retailers is high: shoe manufacture retailers against apparel retailers against supermarket chains. Concluding, **rivalry degree** between footwear retailers is **high**.

In the next pages a **SWOT** analysis and a **TOWS** analysis are present to understand how the current strengths and weaknesses of *Filipe Shoes*' firm will fit the opportunities and threats of the Japanese footwear market.

## SWOT Analysis

Strengths	Weaknesses
<p><b>S1. Internal and strong know how</b>  <b>S2.</b> Capacity to invest in external markets-  <b>Strategic objective of Labirinto</b>  <b>S3.</b> Strong Partnerships within the Portuguese cluster  <b>S4.</b> Capacity to be <b>price-competitive</b>  <b>S5.</b> <i>Filipe Shoes</i> <b>trustful brand</b> among private labels – 3% of exportation to Japan as private label  <b>S6.</b> <b>Portugal industry reputation</b>- number one in technology<sup>32</sup>  <b>S7.</b> Past experience with <i>Filipe Shoes</i> first own brand  <b>S8.</b> <b>Shoe benefits</b>- comfort and made of high quality materials; “<i>Enjoy the Walk</i>”  <b>S9.</b> <b>Quality Management</b>  <b>S10.</b> Strong experience on <b>moccasins</b>’ manufacture  <b>S11.</b> <b>QREN Project</b></p>	<p><b>W1.</b> Low control on <b>delivery deadlines</b> (factory dependent on the raw materials’ suppliers)  <b>W2.</b> <b>Financial incapacity</b> to constantly innovate and invest in R&amp;D  <b>W3.</b> <b>Company’s size</b> - little resources  <b>W4.</b> Newborn brand – <b>No reputation</b> among clients  <b>W5.</b> Very <b>disperse collection</b>  <b>W6.</b> Relatively <b>low margins</b><sup>33</sup> on their products</p>
Opportunities	Threats
<p><b>O1.</b> Japan is the 10<sup>th</sup> leather footwear global importer  <b>O2.</b> Japan in the 15<sup>th</sup> bigger client of Portugal leather footwear (0,7% of the total value) – <b>there is a lot of space to grow</b>  <b>O3.</b> Portuguese leather footwear exports to Japan <b>increased 26.1%</b> from 2008 to 2012<sup>34</sup>  <b>O4.</b> Japanese market is open to new brands. <b>Easiness of doing business</b> – Ranked in 29<sup>th</sup> out of 189 economies<sup>35</sup>  <b>O5.</b> Japanese shift towards <b>western consumption patterns</b>- taste for the design, quality and comfort  <b>O6.</b> Middle youth and Mid-lifers are extremely active consumers – <b>segment of Labirinto Shoes</b>  <b>O7.</b> The sales value of <b>women’s footwear</b> is <b>forecast to rise</b> from €4.2 billion to €4.4 billion, until 2018  <b>O8.</b> <b>Increase in the female labor force</b> - strong growth in women’s suits sales leading to strong <b>demand for comfort footwear</b> for a daily basis use.  <b>O9.</b> Population of Tokyo (around 35 million habitants; 25% of Japan’s population)<sup>36</sup>  <b>O10.</b> “Fashion World Tokyo Fair”<sup>37</sup> partnership with APPICAPS</p>	<p><b>T1.</b> Japanese <b>footwear market</b> is forecast to decrease 4.9% until 2018.  <b>T2.</b> High competition level, either from Portuguese and Japanese companies - <b>no first mover advantage</b>  <b>T3.</b> Maximum amount of imported leather shoes (12 million) and duty rate of 21.6%  <b>T4.</b> High <b>customs fees</b> to export footwear to Japan (24%).  <b>T5.</b> Only <b>2%</b> of Japanese population speaks <b>fluent English</b>  <b>T6.</b> Between 2007 and 2011 there was a <b>decrease of 4% in the available income per family</b> leading to a decrease of 11,8% in apparel and footwear expenses.</p>

<sup>32</sup> APPICAPS.2013. *Footure 2020- Plano Estratégico Cluster do Calçado*.Oporto:CEGEA.

<sup>33</sup> Between 10% to 20%

<sup>34</sup> INE. (2014).

<sup>35</sup> World Bank Group. 2014. “Ease of doing business in Japan 2015”

<sup>36</sup> World Population Review .2014

<sup>37</sup> This Japanese fair is the largest international trade show that brings together in the same place exporters from all over the world and Japanese importers, retailers and distributors. It is held twice a year and it is specialized in all kind

## TOWS Analysis

	Internal Strengths	Internal Weaknesses
External Opportunities	<p><b>S1+S8+S10   O4+O6+O7</b> - Reinforce its experience on comfort shoes' and moccasins' manufacture know-how to establish in the Japanese market as a women footwear brand, who like stylish and comfort shoes to use in a daily basis for work.</p> <p><b>S4+S8   O5 + O6</b> - Aim at middle class working women that are extremely active consumers, with a competitive quality price ratio.</p> <p><b>S2   O2 + O3 + O4</b> - Take the capacity of <i>Filipe Shoes</i>' firm to invest in external markets and the current positioning of Portugal as a Japan's leather footwear client to enter in this market.</p> <p><b>S1+S2   O2+O8</b> - Choose Tokyo as the Japanese internationalization destination for <i>Labirinto</i>. In a second step this move can create synergies to release <i>Labirinto</i> in the rest of Asia, as it is a cosmopolitan city and it dictates trends worldwide.</p>	<p><b>W4  O2 + O4 + O5</b> - Despite the fact that <i>Labirinto Shoes</i> has no reputation in the market, Japan has a strong openness to new brands and to western consumption. Take advantage of the long history and tradition between Portugal and Japan (1470 years) and the bonds that were created. Japanese see Portuguese as a strong and dynamic culture.</p> <p><b>W2+W4+W5   O1+O10</b> - Maximize <i>Labirinto Shoes</i> success taking advantage of its flexibility to adapt to the market and clients preferences, using a strong distributor partner and explore the Japanese distributions channels through exhibitions and participation in the international fairs, that can increase its awareness.</p>
	<p><b>S5+S6+S7   T2</b> - Compete in the Japanese market, taking into account the Portuguese stamp as a quality distinction to create brand reputation among clients.</p> <p><b>S1+S4   T6</b> - Use the capacity of being price competitive and at the same time having a high quality standard to attract mid class consumers given the decrease in the available income per family. As this is the target market for <i>Labirinto Shoes</i>, develop a strong differentiation strategy.</p> <p><b>S4 +S8 +S10   T2 + T5</b> - Establish a strong partnership with one of the bigger distributors in Japan, that knows the market, the competition and the retailers, and differentiate <i>Labirinto</i> targeting middle-class working women.</p>	<p><b>W4   T2</b> - Take advantage of the Portuguese stamp and reputation as the "<i>sexiest shoe industry</i>" to create curiosity within the consumers.</p> <p><b>W4 + W5   T2</b> - Define a strong brand identity and positioning to differentiate themselves from the competition</p> <p><b>W1 + W2 + W3   T5</b> - Develop a strong relation with the distributor in the Japanese market which have a strong market and cultural knowledge and the adequate communication skills.</p>

## Mode of Entry

### Possible Strategies and Import Logistics

After selecting and studying Tokyo as the target market, choose the correct entry mode for *Labirinto Shoes* is a step to maximize the efficiency of the international strategy. Entry modes are specific forms of entering a target country to achieve the strategic goals related to presence in that country (Daniels, 2010). In this global market a company needs to find its place: evaluate different internationalization strategies, testing them and implanting the ones that maximize its value.

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of shoes being the best display place to expand *Labirinto Shoes* as a new brand in Japanese fashion-conscious market. In Spring 2015 this fair will occur from the 1<sup>st</sup> to 3<sup>rd</sup> of April. ([www.fashion-tokyo.jp/en/](http://www.fashion-tokyo.jp/en/))

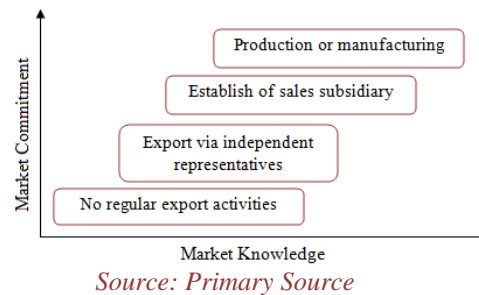
Hollesen S. (2001) explains three main characteristics of SMEs that take part in internationalization's decision. The first, organization, describes how close the employees of SMES and the managers are, being the first participant easily influenced by the second. This is a reality for *Labirinto Shoes* since everyone within the enterprise is focused in the same objective. The second is the fact that SMEs are risk taking. *Filipe Shoes'* firm, as well as other SMEs, may not have all the accurate information about a foreign market, but they learn by experience. They take risk on decision making and learn with their mistakes or accomplishments. The last characteristic is the flexibility that *Filipe Shoes'* firm has in the relation with its clients: it helps them react faster having a value chain that allows responding to clients' needs.

There are some internationalization strategies that can be followed: export, international franchising and international licensing, contract manufacture and strategic alliances. The methods franchising, licensing or strategic alliances aren't valid options since *Labirinto Shoes* is a newborn brand and has no awareness or reputation in the market, between potential partners, clients or similar brands. Outsourcing production could be a valid option, for the last stages of the manufacturing process, but it would put in risk *Labirinto Shoes'* quality, *Filipe Shoes'* firm reputation, and consequently the Portuguese industry stamp.

The Uppsala Model (Johanson & Vahlne, 1977, 1990) is one of most used models in the internationalization process as it explains the characteristics of internationalization development of a firm. According to Manuel Macedo (2010) most of SMEs in Portugal follow this model that is divided in four steps: (i) no regular export activities, in which the firm has the first contact with the market without the commitment of resources; (ii) export activities via independent representatives or agents that have a deeper market knowledge; (iii) the establishment of an overseas subsidiary that will lead to a bigger resources commitment; (iv) overseas production and manufacturing units. In conclusion, as showed in *Figure VI - Uppsala's Model*, it evaluates the degree of market commitment (amount of resources committed; size of investment in a given market) and the degree of commitment (difficulty of finding an

alternative use for the resources and transferring them to an alternative use) and more of one leads to the other.<sup>38</sup>

**FIGURE VI – Uppsala’s Model**



Also according to the same study, SMEs in the North of Portugal prefer to internationalize to markets that are close geographically, linguistically and culturally, have a strong market research or a current relationship (Macedo, 2010). *Labirinto Shoes*, as a newborn brand, has to go to a market where there is a strong openness to new brands and a highly consumer expenditure, as explained in the PESTEL and SWOT analysis. The geographical proximity, in case of *Labirinto Shoes*, would not be an effective strategy due to the fact that Spain or Italy, for example, are extremely close markets to newborn brands and have a strong demand for high-end and luxury products. A strong and favorable market research and the current relationship between *Filipe Shoes*' firm and the Japanese market are two aspects that support the theory.

“Exporting is the action by the firm to send produced goods from the home country to other countries” (Daniels, 2010). Inside the export intermediation options are: indirect exporting, direct exporting and company-owned foreign subsidiary. Indirect exporting is when a firm contracts with an intermediary, often an export management company or a trading company, in the firm’s home country to perform all export functions. Direct exporting is when a firm contracts export intermediaries such as sales representatives, distributors or retailers in the foreign market, with a high level of contact with the brand managers. Lastly, company-owned foreign subsidiary is similar

<sup>38</sup> Exceptions of the Uppsala Model: firms with more experience and resources can take larger steps; When market conditions are stable and homogeneous, market knowledge can be gained from other sources than own experience; Firms with experience of markets with similar conditions may be able to generalize this experience to any specific market.

to direct exporting except the exporter owns the foreign intermediation operation.<sup>39</sup> This last alternative is immediately excluded, since *Filipe Shoes*' enterprise doesn't have capacities to own the intermediation's operation in Japan.

The direct export advantages rely on: higher control level over the choice of the foreign representative; good information feedback about the target market and sales evolution; relationship to the overseas marketplace having the opportunity to learn deeply about the competition; and it may also be the best way to achieve maximum profits and long-term growth. On the other hand direct exports have higher start-up costs (with the market research and local distributor's contract), it demands a greater information requirement and there is the need for more time available.

With the indirect exporting there is a fast market access; a closer relationship with the intermediary; a lower risk on financial terms and a lower commitment of the human capital. As a counter fact, a Portuguese distributor does not have the quality and accuracy knowledge market that a Japanese distributor has. The firm doesn't get the opportunity to develop a direct relationships with clients in foreign markets and consequently don't learn how to do business overseas.

Export intermediaries play a major role in direct international trade, linking individuals and organizations from different markets and cultures (Hessels, Terjesen, 2007). In the case of *Labirinto Shoes* entry in the Japanese market, intermediaries would help in overcoming knowledge gaps, distinct cultures, language differences reducing uncertainties and risks. For *Labirinto Shoes*, as it is a newborn brand and it has no reputation, the more efficient way to get in touch in the Japanese market is through a Japanese distributor: it can be either a wholesaler or an importer. (see *Exhibit 19 – Distributions Channels of Leather Footwear in Japan*). Dr. José Fernandes, from AICEP Global Tokyo, states that "a normal system of a sales agent on a commission basis does not exist in the Japanese footwear market" so choosing a Japanese distributor, instead of an agent, to deal with the transportation process and the retailers' relationship is the best option. It will minimize the risks as the distributor as a deeply knowledge about the market and knows how to expand sales to a Japanese client. As the distributor buys in advance the shoes making an upfront payment, having full

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<sup>39</sup> Hessels, Jolanda and Siri Terjensen.2007. SME Choice of Direct and Indirect Export Modes: Resource Dependency and Institutional Theory Perspectives.

responsibility over the products from then on, it will apply extra effort in the distribution and sales process in order to have no excess stock.

To export to the Japanese market there are a certain documents needed including: pro forma invoice, commercial invoice, packing list, bill of landing, shipper's export declaration, certificate of origin, insurance certificate and an export license. (*see Exhibit 20 - Necessary Documents to Export Definition*)

Previously to the export process, *Labirinto Shoes* brand has to be prepared internally: (i) **prepare the brand portfolio**, (ii) develop a **communication and marketing** strategy, (iii) choose the right **distributor in the Japanese market** and (iv) develop a plan for the **distribution process**. The brand portfolio and the communication strategy are being developed in the current days. *Labirinto Shoes* identity, formal image and models are being developed by a brand creator and *Filipe Shoes*' designers and it will be formally presented to the market in the 2015 winter collection in January 2015, in Italy. *Labirinto Shoes*, for a future internationalization step, should also prepare its online communication channel, since the online retailers are a trend in the Japanese market<sup>40</sup>.

Choosing the right distributor is the main step for this internationalization plan. A distributor buys *Labirinto Shoes*' shoes taking full responsibility for selling them in the overseas market, becoming responsible for the shipment of goods, the accompanying customs formalities and paperwork and is responsible for the stock of the shoes taking care of warehousing and inventory control in the Japanese market. Having the right, professional and loyal distributor brings some advantages as: a) allows the firm to avoid logistics issues; b) decrease trade and currency-related risks; c) understands the local government regulations; d) provide a superior market knowledge not only in terms of the business (competitors, clients and partners) but also in terms of the Japanese culture, language, way of doing business, marketing infrastructures and communication skills; e) creates the possibility to expand to others foreign markets using the same distributor (for example other Japanese cities or other Asian countries) as the distributor can have international operations themselves; f) stronger incentive to reach positive outcomes due to the fact that the distributor makes an up-front commitment, by purchasing the goods. The main disadvantage on using a distributor,

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<sup>40</sup> In the future *Labirinto Shoes* can partner with ABC Mart that has online retailer and is the biggest footwear retailer in Japan.



apart from the loss of control over activities, is the loyal relationship that the clients develop with him. If for some reason, *Labirinto Shoes* has to change its distributor, it probably will lose the clients raised until the date. So the relationship between the distributor and the firm has to be strong and trustful. To choose the right distributor, *Filipe Shoes*' firm has to go to exhibitions and fairs in the Japanese market<sup>41</sup>, expand their network, do a deep research of the market, ask advices from AICEP Tokyo or ask for recommendations from another Portuguese footwear enterprise already operating in Japan.<sup>42</sup>

After an interview with Eng. José Fernandes from AICEP Tokyo, who provided an extremely helpful list with Japanese women's footwear importers a deep research was realized in order to pick importers that distribute brands within the same positioning as *Labirinto Shoes*. As a result, *Labirinto Shoes* can negotiate and contract with the following Japanese women's footwear importers: Toho Lamac, Isentan Store, Shin ei Corporation, Mode et jacomio, Imex Co., Ltd, Misuzi Shoji Ltd and Ogitsu (*see Exhibit 21 – Competitors Prices Analysis*).

The distribution process will have to be designed as an intermodal transportation, done by surface and sea. Who will be the freight forwarder is also an issue: it can be either an import or export specialist dealing with the goods' transportation. (*see Exhibit 22 – Incoterms 2010, Rules for sea and inland waterway transport*). FOB is the best model for footwear and apparel.<sup>43</sup> After some research and contacts the recommendation is for *Labirinto Shoes* to contact a freight forwarder as for example *WLP Transitários*<sup>44</sup>. The shoes will be transported by truck from *Santa Maria da Feira* till the port of *Leixões*. Then all the Portuguese stock will be dispatched to the port of Tokyo, by ocean freight (that has the advantage of being cheaper, safer and more appropriate for heavy products)<sup>45</sup>. Under this system *Filipe Shoes* firm is responsible for the production costs, the profit of the firm and the transportation expenses until port of *Leixões*. The risk of any damage or loss of the shoes passes from the *Labirinto Shoes* to the distributor when the goods are on board the vessel. Then the Japanese distributor

<sup>41</sup> The ones indicated in the SWOT analysis

<sup>42</sup> In 2011, the biggest Portuguese firms exporting leather footwear to Japan were: Amadois-Calçado, Lda; Brandao & Soares, Lda; Calsuave – Indústria de Calçado, Lda; Comforsyst, S.A; Fábrica de Calçado da Mata, Lda; Lucília, Vieira & Lima, Lda; Macosmi – Fábrica de Calçado, Lda; MMD Shoes – Fabricantes de Calçado, Lda; PECAFI SHOES- Calçado, SA; Pedro Almeida Sociedade Unipessoal, Lda.

<sup>43</sup> Gomes, Uno. Retrieved from: <http://www.unogomes.com/>.

<sup>44</sup> WLP Transitários, Web site: <http://www.wlportugal.com/wlportugal/>, Direct contact: Cristina Lemos

<sup>45</sup> Information from Rui Sousa, Manager of *Filipe Shoes*

takes the costs and risk of the transportation via maritime. There are some Portuguese infrastructures that can help *Labirinto Shoes* with the legal papers as well as with the financial formal lines: Portuguese banks, IAPMEI<sup>46</sup>, PME<sup>47</sup> or ANPME<sup>48</sup>. (See Exhibit 23 – *Import Logistics*)

Summing up, the **direct export method with a Japanese distributor** is the method that enables *Labirinto Shoes* to enter in the Japanese market with a combination of less experience from the firm, lower risk and costs and with the higher success rate, giving the opportunity to expand to other Asian markets.

### Implementation plan

As it was said before, in order to have a successful strategy with direct exporting, *Labirinto Shoes* has to prepare its brand internally and register its brand in the Japanese market.<sup>49</sup> The enterprise should have a close relationship with CTCP, in order to keep in touch with the newest and modern technologies that can improve its manufacture process. The designers must study the Japanese's fashion trends in the “comfort and casual” style to be able to differentiate and adapt *Labirinto Shoes* models and designs to its target market.

AICEP Portugal, AICEP Tokyo, JETRO and the Japanese Chamber of Commerce are crucial institutions that would help in the effectiveness of the internationalization strategy.

Having the **4 M's** model as base, a plan was design to define and study the implementation phases needed with the direct exporting process. The human resources, time and strategic actions to achieve the goals were defined. Following it, a **Pricing Strategy** and **Financial Projections**, with the according study about the **Market Potential** (see Exhibit 24 – *Market Potential*), were accomplished, having into account all the **Investments** (see Exhibit 25 – *Initial Investments*) and **Money** (see Exhibit 26 – *Cost incurred during the Business Plan, COGS*) needed to aim this implementation strategy. In the end a **Risk Analysis** was developed.

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<sup>46</sup> Instituto de Apoio às Pequenas e Médias Empresas e à Inovação, Web site: <http://www.iapmei.pt/>

<sup>47</sup> Portal das Pequenas e Médias Empresas, Web site: <http://www.pmeportugal.com.pt/>

<sup>48</sup> Associação Nacional das Pequenas e Médias Empresas, Web site: <http://www.anpme.pt/>

<sup>49</sup> See the procedures and costs of registering a trade mark in Japan in Kaizen Corporate Services Limited, Web site: <http://www.by-cpa.com/html/news/20076/727.html>

## MEMO (10 years)

	Objectives	Target	Measurement	Initiative
<b>Financial</b>	<ul style="list-style-type: none"> <li>. Increase revenues</li> <li>. Increase profit margin</li> <li>. Be price-competitive</li> <li>. Decrease financial risk</li> </ul>	<ul style="list-style-type: none"> <li>. <i>Labirinto Shoes</i> profit margin of 40%</li> </ul>	<ul style="list-style-type: none"> <li>. N° of pairs of shoes sold to the distributor</li> <li>. Comparing final prices with competitors</li> <li>. <i>Labirinto Shoes</i> mark up</li> <li>. Cost of goods sold</li> <li>. Total sales</li> </ul>	<ul style="list-style-type: none"> <li>. Pricing strategies</li> <li>. Strategy based on price supported by making local partnerships</li> <li>. Partnership with a Japanese distributor</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>. Expand the retailers' portfolio – create brand awareness among them</li> <li>. Create brand awareness in Tokyo final customers</li> <li>. Positive quality perceived</li> <li>. Positive level of client's satisfaction</li> <li>. Gain reputation in Asia</li> </ul>	<ul style="list-style-type: none"> <li>. 5 local retailers</li> <li>. 80% customer satisfaction with <i>Labirinto Shoes</i></li> <li>. Partnership with 2 women's apparel retailer</li> <li>. Be present in other Japanese market.</li> </ul>	<ul style="list-style-type: none"> <li>. Number of stores where <i>Labirinto Shoes</i> is present</li> <li>. Market research throughout questioners to retailers</li> <li>. Distributor order frequency</li> <li>. Market research throughout questioners to final customers</li> <li>. Website click-through - number of Japanese viewers to the website.</li> </ul>	<ul style="list-style-type: none"> <li>. Marketing strategy</li> <li>. Participation in Japanese footwear fairs</li> <li>. Develop an appealing and interactive web-site</li> <li>. Japanese translation of the website</li> <li>. Partner with retailers of women's apparel, especially formal suits.</li> <li>. Marketing <i>Labirinto Shoes</i> in footwear magazine or specialized books, for example "Footwear Press"<sup>50</sup></li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>. Annual presence in Japan's international footwear fairs</li> <li>. Gain autonomy- Learn Japan's business models and business culture</li> <li>. Constant design improvement</li> <li>. After sales services</li> </ul>	<ul style="list-style-type: none"> <li>. 1 annual Japanese's fairs</li> <li>. &lt; 10% customers' complaints</li> </ul>	<ul style="list-style-type: none"> <li>. N° of annual fairs attended</li> <li>. N° of items' returned</li> <li>. Number of complains</li> <li>. % of customer service request in a period of time</li> <li>. Quality management control</li> </ul>	<ul style="list-style-type: none"> <li>. Contact with AICEP, JETRO, Japanese Chamber of Commerce to keep update with the new laws and market demands.</li> <li>. Make periodic business visits to Japan and establish a relation with the retailers and clients.</li> <li>. Read fashion Japanese magazines to keep up with trends.</li> <li>. Partnership with "FBAUP"<sup>51</sup> and "ESAD Matosinhos"<sup>52</sup> in order to develop new models and renew the design competence of the firm.</li> <li>. Create a customer service department. Availability to customer requests by calls or e-mail.</li> </ul>
<b>Distributor</b>	<ul style="list-style-type: none"> <li>. Constant information flow between the firm and the distributor</li> <li>. Current feedback about the operations.</li> <li>. Control distributor performance</li> <li>. Loyal partnership</li> <li>. Take advantage of synergies in Asia and other markets</li> </ul>	<ul style="list-style-type: none"> <li>. Attend to consumers demands</li> <li>. Keep distribution costs low to keep price competitive</li> <li>. Be present in another Japanese city</li> </ul>	<ul style="list-style-type: none"> <li>. Freight costs - minimize costs without affecting deliveries</li> <li>. N° of retailers</li> <li>. N° of partnerships</li> <li>. Ratio of distribution expenses/volume sales</li> <li>. Delays on transactions</li> <li>. Delays on payment</li> <li>. N° of monthly contacts with the distributor</li> </ul>	<ul style="list-style-type: none"> <li>. Continuous communication between the firm and the distributor.</li> <li>. Take advantage of increased production to have economies of scale; Strong relation with the distributor to take advantage of possible existent partners in other Japanese cities or Asian countries.</li> </ul>

<sup>50</sup> "Footwear Press" has been a leading Japanese magazine to report footwear marketing information. The readers are shoe stores, department stores, footwear manufactures and wholesalers.

<sup>51</sup> Faculdade de Belas Artes da Universidade do Porto, Web site: [www.fba.up.pt/](http://www.fba.up.pt/)

<sup>52</sup> Escola Superior de Artes e Design, Web site: [www.esad.pt/](http://www.esad.pt/)

## Minute and Men

The objectives, tasks to be accomplished as well as the responsible for each one and the time frame for this implementation plan can be found in the 10 years business plan. (see *Exhibit 27 - Business Plan, Implementation Plan: Objectives, Tasks and Timeframe*)

Regarding the human resources, *Labirinto Shoes* should hire a person to be responsible for the after sales services recommended in the MEMO analysis. This person will have to deal with: complains, extra distribution demands, and respond to clients' inquiries, needs and requirements between others, increasing the quality service delivered by the firm.

*Labirinto Shoes'* managers have to contact with a Japanese distributor, closing a contract with him. This can be chosen by a selection made within distributors that are already in the market. (see *Exhibit 28- Japanese Distributors Contacts*) As referred before, this selection was based in a list of Japanese women footwear distributors currently working with AICEP Tokyo provided by Eng. José Fernandes. A research was made throughout the companies and respective brands web sites. In the end a selection was made taking into account the ones that were more similar to *Labirinto Shoes* potential positioning.

## Pricing Strategy

The strategy for the pricing and all the calculations incurred are presented in *Exhibit 29 – Pricing Strategy*.

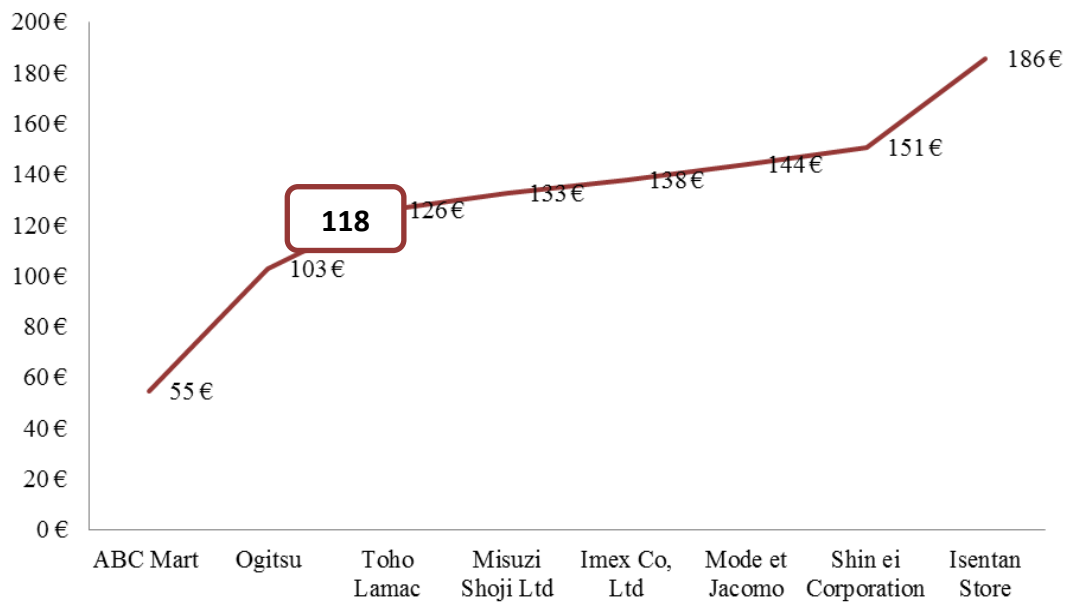
The margin considered for *Labirinto Shoes* will be 40% achieving a merchandize price of 25,96 €. Following it, the distributor mark up is considered to be 70% leading to a unit distribution price of 54.92 € and the retailer will charge a 100% mark up leading to a final price of 118.62 €.

The following graphic shows a comparison between the average price from *Labirinto Shoes* and its competitors<sup>53</sup> in the Japanese market. *Labirinto Shoes* average final retail price per pair will be 118.62 €, lower than its competitors and in line with the Japanese purchase power. This gives price competitive advantage to *Labirinto Shoes* within the respective segment.

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<sup>53</sup> Distributors in the Japanese market that sell brands having the same potential positioning as *Labirinto Shoes*.

**FIGURE VII – *Labirinto Shoes* and Competitors Price Comparison**



*Source: Primary Source*

## Financial Projections

To evaluate the potential of this project an Incremental Forecast of the P&L and Cash Flow Statement were accomplished. Doing so and calculating the incremental NPV, discounted by the WACC of *Labirinto Shoes*<sup>54</sup> it is possible to analyze whether it is a viable internationalization project to trail or not.

The necessary investment, divided in the two years of the pre-entry mode, took into account the primary costs needed to prepare the brand internally, register the brand in the Japanese market and find a strong distributor. (*see Exhibit 25 – Initial Investment*) The other costs occurred during the entire project, like operating, personnel, marketing and transportation costs were base in all the costs that *Labirinto Shoes* will incur in each steps from the business plan. (*see Exhibit 26 – Costs incurred during the Business Plan, COGS*)

The market potential was estimated looking at the Japanese market for the female working middle class segment that buys comfort and casual footwear for a working day. It represents 3% from the total population in Tokyo, rounding to 964.688 persons. With an estimated price of 118,62 € the market potential is evaluated to be

<sup>54</sup> WACC=3%, given by Rui Sousa, *Filipe Shoes*' Manager

114.431.298,56 € (*see Exhibit 24 – Market Potential*). From this potential market the sales revenues were calculated taking into account that in the first year *Labirinto Shoes* will only conquer 0.1% of the market potential, with a potential growth in the first four years, stabilizing its sales then. The projected initial quantity sold in Tokyo will be 965 pair of shoes.

Three scenarios were evaluated according to a potential fluctuation in the quantities sold. Consequently an alteration in this variable changes parameters in the COGS as the salaries, energy and transportation costs that are calculated in function of the quantity sold.

In the Normal Scenario, an incremental NPV of 102.254,59 € was obtained with an associated IRR of 26% and a Payback Period of 5 years and 1 month. (*see Exhibit 30 – Normal Scenario: Incremental NPV analysis for Labirinto Shoes*)

In the Pessimistic Scenario the quantity sold was assumed to be less 20% of the Normal Scenario, leading to an incremental NPV of 16.373,78 €, an IRR of 9% and Payback Period of 5 years and 10 months. (*see Exhibit 31 – Pessimistic Scenario: Incremental NPV analysis for Labirinto Shoes*)

At last, in the Optimistic Scenario the quantity of *Labirinto Shoes*' sold was assumed to be more 20% of the Normal Scenario, achieving an incremental NPV of 188.135,40 €, an IRR of 39% and a Payback Period of 4 years and 4 months. (*see Exhibit 32 – Optimistic Scenario: Incremental NPV analysis for Labirinto Shoes*)

From these three analyses we can conclude that *Labirinto Shoes* should penetrate Tokyo market following the direct export approach studied before. The three scenarios have a positive incremental NPV and the cost of capital is always inferior to the calculated IRR. Having into account the Payback Period and the fact that this is a 10 years model *Labirinto Shoes* will recover its initial investment in the middle of the project.

## **Risk Analysis**

In every project there are unforeseen and uncertain situations that might alter the way things occur and therefore there is a need to change the plans and adapt to new circumstances (Brown, Hyer, 2009). In case of *Labirinto Shoes* entry in Tokyo's market there are mainly five risks: high dependency on the Japanese distributor, incapacity to

create significant brand awareness, lower expected demand, dependency on the suppliers and the exchange risk.

The **high dependency on the Japanese distributor** is considered the mainly risk. The strategy followed by the distributor and its decisions will affect not only *Labirinto Shoes*' image and reputation but also its profits, opening the possibility of margin losses for the firm. For these reasons, as explained before in the mode of entry part, the level of contact and loyalty between the distributor and *Filipe Shoes*' managers is highly important. There should be a clear and strong communication scheme.

The **low brand awareness** in this highly competitive industry is an issue that can be reduced by the participation in fairs, exhibitions and divulgation of *Labirinto Shoes* in industry's forums and magazines. *Labirinto Shoes* can partner with an experienced footwear/apparel retailer under a product brand strategy or endorsing brand strategy architecture.<sup>55</sup> The distributor knowledge and reputation in the market is a huge competitive advantage so the distributor has to have a clear brand identity definition to pass the right message. In order to avoid **protection problems**, *Labirinto Shoes* brand has to be registered in the Japanese market (name, logo and other features associated with the physical brand) to keep away replication by the competition. Related to this, the name "*Labirinto*" can be a difficult name to pronounce in the Japanese culture, so *Filipe Shoes*' firm should think in some alternatives, like "*Labi Shoes*".

The high custom fee to export footwear and all the cost associations with the distribution process can inflate the final price leading to a **lower demand** and loss of the price competitive objective. For this *Labirinto Shoes* and its distributor should have contact with JETRO, AICEP and Portuguese and Japanese banks in order to arrange strategies to reduce these costs.

*Labirinto Shoes* raw materials' **suppliers' dependency** is a critical risk. If the delivering orders are not made on time will affect all the manufacturing process of *Labirinto Shoes* and consequently its deliveries timeframes to the distributor putting in risk the firm reputation and credibility.

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<sup>55</sup> Product brand strategy architecture advantages: as the name of the company behind remains unknown to the public there is the possibility to take higher risks in new markets; the failure of each brand has no negative impact on the others brands as there are independent from each other. Endorsing brand strategy architecture advantages: the endorsing stands for a guaranty of the endorsed brand quality as well as there is a greater freedom of movement from the endorsed brands which can take an independent strategy.

Lastly, as the business relies on exporting goods, there is the need to consider the changes in the exchange rate. The **exchange risk**, due to the oscillation of the Yen value, should be monitored and *Labirinto Shoes* should have clear information from both Portuguese and Japanese banks. Making agreements with fixed prices in Euros would be one of the solutions for the firm.

## Conclusion

*Labirinto Shoes* as a new own brand should follow an internationalization strategy, exporting to countries where the market is open to new brands, having into account the vision and mission of *Filipe Shoes*' enterprise. Regarding the valuable advantage of *Labirinto Shoes* in the Japanese market, it relies on being positioned as a Portuguese comfort quality shoe heading for casual and active stylish women who enjoy comfort belonging to the medium to high end income class. *Labirinto Shoes* also incorporates *Filipe Shoes*' enterprise value advantages: the cluster network, on-going research of raw materials, know-how, in-house design and the quality management.

Tokyo is a fashion market. It is not only a follower of the newest trends in the industry as it also dictates some fresh ones. It has an extremely urban profile and women are gaining an important and powerful role in the economy. The Prime Minister, Shinzo Abe, enounced that "women play a vital role in reinvigorating the Japanese economy"<sup>56</sup> and women leadership positions is forecast to be 30% by 2020. These prospects and the high Japanese consumer expenditure are determinant and positive factors to *Labirinto Shoes* market entry and reinforces its positioning to working women who enjoy wearing a casual, comfort but yet trendy pair of shoes.

The key success factor for this internationalization plan is the choice of distributor in the Japanese market. Japan has a highly competitive environment, so choosing a loyal, trustful partner with a high knowledge about the market is the main step to succeed. Due to this fact, the two years pre-entry step becomes very important in the business model: visit fairs and expositions, do a deep and continuous research on the market and be informed about the fashion trends in the Japanese footwear industry throughout magazines, forums and consumers' reviews between others. *Labirinto Shoes* should contact and negotiate with one of these seven studied distributors: Toho Lamac,

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<sup>56</sup> The Guardian. (October 16, 2014), "Japan must embrace "womenomics" to modernise economy"



Isentan Store, Shin ei Corporation, Mode et jacomo, Imex Co., Ltd, Misuzi Shoji Ltd and Ogitsu. A continuous flow of information about products' management, possible risks and possible contingency plans is required between *Labirinto Shoes*' managers and the distributor during the entire business plan.

The pricing strategy followed by *Labirinto Shoes* will result in a merchandize price of 25,96€, assuming a margin of 40% to the enterprise. The final retail price will be 118,62€, a competitive price when comparing to brands within the same positioning as *Labirinto Shoes*. This represents an advantage for the brand as it offers the same quality and functionality as the others shoes in the market for a lower price.

Looking at the financial model, it was concluded that *Labirinto Shoes* will need a primary investment of 18.260 € in the first year followed by an investment of 14.980 € in the second year and these will result in a positive incremental NPV for all three scenarios: normal (102.254,59 €) , pessimistic (16.373,78 €) and optimistic (188.135,40 €). The positive incremental NPV in all scenarios for the 10 years business model proves that Tokyo will be a good investment for *Labirinto Shoes*. It will help the brand to develop and grow. This value can suffer some adjustments depending on unexpected events such as travels, formation or other operational costs.

Comparing with the other work project realized, the Internationalization Strategy of *Labirinto Shoes* to Australia is concluded that *Labirinto Shoes*' should enter firstly in Tokyo and enjoy all the synergies associated. With this step the firm has access to larger market potential, lower risks and can gain strategy experience in this new adventure.

As a conclusion the internationalization project to Tokyo is an open door to other Japanese urban cities as Osaka or Kyoto, if the distributor has the rights channels of communication and a diversified distribution infrastructure. *Labirinto Shoes* internal preparation is crucial to a rapid and effective response to the market.

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